

AUDIT REPORT

CITY OF LEHIGH, OKLAHOMA

JUNE 30, 2013



KERSHAW CPA & ASSOCIATES, PC

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CITY OF LEHIGH, OKLAHOMA
JUNE 30, 2013

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CITY OF LEHIGH, OKLAHOMA
JUNE 30, 2013

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CITY OF LEHIGH, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2013

BOARD OF TRUSTEES

<u>NAME</u>	<u>POSITION</u>
EARNEST COTTRELL	MAYOR
WANDA CALVERT	VICE-MAYOR
CHERYL YOUNG	BOARD MEMBER
BECKY YARBROUGH	BOARD MEMBER
JESSE HORN	BOARD MEMBER

CITY TREASURER

KAY YARBROUGH

WATER SUPERVISOR

DARRELL LONG

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Lehigh, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Lehigh, Oklahoma, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of

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accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The City has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental & Business-Type Activities is not readily determinable.

Until October 2006, the City recorded its business-type activities within the governmental funds, primarily the General Fund. Accounting principles generally accepted in the United States of America require the City to report, in a financial statement format, its business-type activities separate from its governmental activities. Although the City now has separate accounts for the PWA and IDA, funds are still being commingled.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Lehigh, Oklahoma, as of June 30, 2013, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory and supplementary sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City. Such additional information has not been subjected to the auditing procedures

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applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2013, on our consideration of the City of Lehigh's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering City of Lehigh's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

October 23, 2013

CITY OF LEHIGH, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	2013 Total
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 80,158	\$ 36,453	\$ 116,611
Investments	-	-	-
Total Current Assets	80,158	36,453	116,611
<u>Other Assets:</u>			
Cash and cash equivalents - Restricted	-	480,736	480,736
Total Other Assets	-	480,736	480,736
<u>Capital Assets:</u>			
Capital Assets, net of Accum. Depreciation	261,167	3,080,248	3,341,415
Total Capital Assets	261,167	3,080,248	3,341,415
TOTAL ASSETS	341,325	3,597,437	3,938,762
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Accounts Payable	-	-	-
Total Current Liabilities	-	-	-
<u>Long-Term Liabilities:</u>			
Capital Lease Obligations	-	-	-
Revenue Bonds Payable	-	-	-
Notes Payable	-	663,282	663,282
Total Long-Term Liabilities	-	663,282	663,282
TOTAL LIABILITIES	-	663,282	663,282
<u>NET POSITION</u>			
Net investment in capital assets	261,167	2,416,965	2,678,134
Restricted for:			-
Debt Service	-	480,736	480,736
Other Purposes	-	-	-
Unrestricted	80,157	36,453	116,610
TOTAL NET POSITION	\$ 341,325	\$ 2,934,154	\$ 3,275,479

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Govt. & Public Safety:					
Personal Services	\$ 24,996	\$ -	\$ -	\$ -	\$ (24,996)
Maintenance & Operations	51,067	-	-	4,484	(46,583)
M&O: Community Development	-	-	-	-	-
Debt Service - Interest	-	-	-	-	-
Total Governmental Activities	<u>76,063</u>	<u>-</u>	<u>-</u>	<u>4,484</u>	<u>(71,579)</u>
Business-type activities:					
Water, Sewer & Sanitation	301,332	144,358	-	499,000	342,026
Total Business-type Activities	<u>301,332</u>	<u>144,358</u>	<u>-</u>	<u>499,000</u>	<u>342,026</u>
Total	<u>\$ 377,396</u>	<u>\$ 144,358</u>	<u>\$ -</u>	<u>\$ 503,484</u>	<u>\$ 270,447</u>

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (71,579)	\$ 342,026	\$ 270,447
General revenues:			
Taxes:			
Sales Tax	16,370	-	16,370
Use Tax	1,055	-	1,055
Cigar Tax	202	-	202
Franchise Tax	3,849	-	3,849
Intergovernmental:			
Alcoholic Beverage Tax	6,206	-	6,206
Gasoline Excise Tax	657	-	657
Motor Vehicle Tax	2,194	-	2,194
Lease Income/Rent	1,726	-	1,726
Oil & Gas Lease Income	20,981	-	20,981
Licenses & Permits	2,834	-	2,834
Donations	135	-	135
Miscellaneous Income	5,739	-	5,739
Interest Income	415	53	468
Transfers - Internal Activity	(23,077)	23,077	-
Total general revenues & transfers	<u>39,286</u>	<u>23,130</u>	<u>62,416</u>
Changes in net position	(32,292)	365,156	332,864
Net position - beginning	373,617	2,568,974	2,942,591
Net position - prior year adjustment	-	24	24
Net position - ending	<u>\$ 341,325</u>	<u>\$ 2,934,154</u>	<u>\$ 3,275,479</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF LEHIGH, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Volunteer Fire Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 60,205	\$ 9,574	\$ 10,378	\$ 80,158
Investments	-	-	-	-
Accounts Receivable	-	-	-	-
TOTAL ASSETS	<u>\$ 60,205</u>	<u>\$ 9,574</u>	<u>\$ 10,378</u>	<u>\$ 80,158</u>
<u>LIABILITIES & FUND EQUITY</u>				
<u>LIABILITIES:</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES:</u>				
Nonspendable	-	-	-	-
Restricted	-	-	1,320	1,320
Committed	-	-	-	-
Assigned	-	9,574	9,059	18,633
Unassigned	60,205	-	-	60,205
TOTAL FUND BALANCES	<u>60,205</u>	<u>9,574</u>	<u>10,378</u>	<u>80,158</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 60,205</u>	<u>\$ 9,574</u>	<u>\$ 10,378</u>	

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities of \$261,167, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds.	261,167
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Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	-
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Net Position of Governmental Activities	<u>\$ 341,325</u>
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See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Volunteer Fire Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>				
Taxes:				
Sales Tax	\$ 16,370	\$ -	\$ -	\$ 16,370
Use Tax	1,055	-	-	1,055
Cigar Tax	202	-	-	202
Franchise Tax	3,849	-	-	3,849
Intergovernmental:				
Alcoholic Beverage Tax	6,206	-	-	6,206
Gasoline Excise Tax	-	-	657	657
Motor Vehicle Tax	-	-	2,194	2,194
Grants	-	4,484	-	4,484
Lease Income/Rent	1,726	-	-	1,726
Oil & Gas Lease Income	20,981	-	-	20,981
Water Revenue	-	-	-	-
Licenses & Permits	-	-	2,834	2,834
Donations	-	135	-	135
Miscellaneous Income	903	4,836	-	5,739
Interest Income	377	19	18	415
TOTAL REVENUES	51,670	9,474	5,704	66,848
<u>EXPENDITURES:</u>				
Current:				
Personal Services	23,896	1,100	-	24,996
Maintenance & Operations:				
Maintenance & Operations - General	17,146	15,137	13,784	46,067
Community Development	-	-	-	-
Debt Service	-	-	-	-
Capital Outlay	-	-	5,000	5,000
TOTAL EXPENDITURES	41,042	16,237	18,784	76,063
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	10,628	(6,763)	(13,080)	(9,215)
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	-	7,219	9,461	16,679
Operating Transfers Out	(31,437)	(8,319)	-	(39,756)
Capital Debt Proceeds - CRG	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(31,437)	(1,101)	9,461	(23,077)
NET CHANGES IN FUND BALANCES	(20,809)	(7,864)	(3,619)	(32,292)
FUND BALANCE - BEGINNING OF YEAR	81,014	17,438	13,998	112,450
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 60,205	\$ 9,574	\$ 10,378	80,158

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	(32,292)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

Capital debt obligation principal payments		-
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Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:

Capital Debt Proceeds		-
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized		-
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Depreciation expense		-
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	\$	(32,292)
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See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2013

	Lehigh Public Works Authority	Lehigh Industrial Development Authority	Total Enterprise Funds
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 36,065	\$ 388	\$ 36,453
Investments	-	-	-
Total Current Assets	36,065	388	36,453
Noncurrent Assets:			
Restricted cash, including time deposits	-	480,736	480,736
Capital assets, net of accumulated depreciation	186,035	2,894,212	3,080,248
Total Noncurrent Assets	186,035	3,374,948	3,560,984
TOTAL ASSETS	222,101	3,375,336	3,597,437
<u>LIABILITIES & FUND EQUITY</u>			
Current Liabilities:			
Accounts Payable	-	-	-
Total Current Liabilities	-	-	-
Noncurrent Liabilities:			
Notes Payable	-	663,282	663,282
Total Noncurrent Liabilities	-	663,282	663,282
TOTAL LIABILITIES	-	663,282	663,282
NET POSITION:			
Net Investment in capital assets	186,035	2,230,930	2,416,965
Restricted for debt service	-	20,136	20,136
Restricted for other purposes	-	460,600	460,600
Unrestricted	36,065	388	36,453
TOTAL NET POSITION	\$ 222,101	\$ 2,712,054	\$ 2,934,154

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 - MODIFIED CASH BASIS -
 PROPRIETARY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Lehigh Public Works Authority	Lehigh Industrial Development Authority	Total Enterprise Funds
<u>OPERATING REVENUES:</u>			
Water, Sewer and Sanitation Charges	\$ 143,283	\$ -	\$ 143,283
Grant Income - USDA RD	-	-	-
Grant Income	-	-	-
Oil & Gas Lease Income	-	-	-
Miscellaneous	1,075	-	1,075
TOTAL OPERATING REVENUES	144,358	-	144,358
<u>OPERATING EXPENSES:</u>			
Current:			
Personal Services	43,326	-	43,326
Trash Service Expense	26,928	-	26,928
Electricity	15,152	-	15,152
Maintenance & Operations	68,655	1,800	70,455
Depreciation	11,113	105,771	116,884
TOTAL OPERATING EXPENSES	165,174	107,571	272,745
NET OPERATING INCOME (LOSS)	(20,816)	(107,571)	(128,387)
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	53	-	53
Interest Expense	-	(28,588)	(28,588)
TOTAL NON-OPERATING REVENUES (EXPENSES)	53	(28,588)	(28,534)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(20,763)	(136,158)	(156,921)
Capital Contributions	-	499,000	499,000
Transfers in	23,077	55,369	78,446
Transfers out	(55,369)	-	(55,369)
CHANGE IN NET POSITION	(53,055)	418,211	365,156
TOTAL NET POSITION - BEGINNING	275,131	2,293,843	2,568,974
TOTAL NET POSITION - ADJUSTMENTS	24	-	24
TOTAL NET POSITION - ENDING	\$ 222,101	\$ 2,712,054	\$ 2,934,154

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Lehigh Public Works Authority	Lehigh Industrial Development Authority	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Receipts from Customers	\$ 144,358	\$ -	\$ 144,358
Cash Receipts from Granting Agencies/Other	-	-	-
Payments to Suppliers, Employees & Laborers	(154,061)	(1,800)	(155,861)
Net Cash Provided (Used) by Operating Activities	(9,703)	(1,800)	(11,503)
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfers in	23,077	55,369	78,446
Operating Transfers Out	(55,369)	-	(55,369)
Net Cash Provided (Used) by Non-Capital Financing Activities	(32,292)	55,369	23,077
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Additions to Capital Assets	-	(38,400)	(38,400)
Decrease (Increase) in Restricted Cash	-	(477,413)	(477,413)
Grant Income	-	499,000	499,000
Principal paid	-	(8,168)	(8,168)
Interest paid	-	(28,588)	(28,588)
Net Cash Provided (Used) by Capital & Related Financing Activities	-	(53,569)	(53,569)
<u>Cash Flows from Investing Activities:</u>			
Interest Earned	53	-	53
Net Cash Provided (Used) by Investing Activities	53	-	53
Net Increase (Decrease) in Cash and Cash Equivalents	(41,942)	-	(41,942)
Cash & Cash Equivalents, Beginning of Year	77,982	388	78,370
Cash & Cash Equivalents, Adjustments	24	-	24
Cash & Cash Equivalents, End of Year	\$ 36,065	\$ 388	\$ 36,453
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>			
Net Operating Income (Loss)	\$ (20,816)	\$ (107,571)	\$ (128,387)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation Expense	11,113	105,771	116,884
(Increase)Decrease in Due from Other Funds	-	-	-
Increase(Decrease) in Payroll Taxes Payable	-	-	-
Increase(Decrease) in Due to Other Funds	-	-	-
Net Cash Provided (Used) by Operating Activities	\$ (9,703)	\$ (1,800)	\$ (11,503)

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA
 STATEMENT OF NET POSITION - MODIFIED CASH BASIS
 FIDUCIARY FUND TYPES
 JUNE 30, 2013

	<u>Meter Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 16,336
Investments	<u>-</u>
TOTAL ASSETS	<u>16,336</u>
<u>LIABILITIES & FUND EQUITY</u>	
Meter Deposit Payable	<u>15,019</u>
TOTAL LIABILITIES	<u>15,019</u>
NET POSITION:	
Net investment in capital assets	-
Restricted for debt service	-
Unrestricted	<u>1,317</u>
TOTAL NET POSITION	<u><u>\$ 1,317</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity is comprised of the following:

Primary Government:	City of Lehigh
Blended Component Units:	Lehigh Public Works Authority (LPWA) Lehigh Industrial Development Authority (LIDA)

PRIMARY GOVERNMENT

The City of Lehigh, Oklahoma operates under City Board of Trustees form of government under Title 11 of the Oklahoma Statutes. The City provides the following services: public safety, streets and highways, sanitation, public improvements, and general administrative services.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the City Council, and there is a financial benefit or burden relationship with the City, or City management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the City; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the City. The blended component unit's funds are blended into those of the City by appropriate fund type to constitute the

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

primary government presentation. Based on the foregoing criteria, the financial statements of the following component units are blended into the accompanying financial statements: Lehigh Public Works Authority and Lehigh Industrial Development Authority. The City board of trustees, PWA and IDA board of directors are the same.

In August, 2001, the City of Lehigh established and created a Trust entitled "Lehigh Development Authority: for the use and benefit of the Beneficiary for the public purposes set forth under the provisions of Title 60, Oklahoma Statutes 1991, Sections 176 to 180.4, inclusive, as amended and supplemented, the Oklahoma Trust act and other applicable statutes and laws of the State of Oklahoma. The Trust is to have and hold such property and the proceeds, rents, profits, and increases unto said Trustees and said Trustees' successors and assigns, but nevertheless in trust, for the use and benefit of the City of Lehigh, State of Oklahoma, such City being designated as "Beneficiary."

The purpose of this Trust are to assist the Beneficiary, the State of Oklahoma, Governmental Agencies, municipalities and private entities, agencies and citizens in making the most efficient use of all of their economic resources and powers in accord with the needs and benefit of the State of Oklahoma and the Beneficiary in order to lessen the burdens of government and to stimulate economic growth and development.

B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The city's funds are organized into two major categories: governmental and proprietary. The City presently has one fiduciary fund. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

Governmental Funds

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Street and Alley, Volunteer Fire, and Cemetery

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Proprietary Funds

Enterprise Funds - Lehigh Public Works Authority and Lehigh Industrial Development Authority

Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheets.

Fiduciary Funds

Trust and Agency Funds - Meter Deposit Fund

Trust and Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments and/or other funds. These include meter deposit funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement or results of operations.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented used the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets.

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the City utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting.

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

All government-wide financial statements would be presented on the accrual basis of accounting.

D. FINANCIAL POSITION

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

CAPITAL ASSETS

The City's does not maintain adequate records for capital assets of the governmental and proprietary funds types; therefore Capital Assets are not reported. The City has capitalized some but not all of its capital assets. The capitalization threshold utilized has been \$400.00.

BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles.

SALES TAX COLLECTIONS

The City of Lehigh has a two cent sales tax. One cent sales tax is earmarked for cemetery maintenance and one cent sales tax is earmarked for the Volunteer Fire Department. Sales tax is deposited to the General Fund, and then transferred to the Cemetery and Volunteer Fire checking accounts. Purchase orders are prepared and approved by the City Council for expenditures from both accounts.

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NET POSITION/FUND BALANCE CLASSIFICATIONS

Government-Wide Statements

Net Position is classified and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the City's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Financial Statements

Governmental Funds

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

- Non-spendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purpose of each major special fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Volunteer Fire Fund	Grants
	Donations

Estimates

The preparation of financial statements in conformity with the modified cash basis used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determination of depreciation expense); accordingly, actual results could differ from those estimates.

Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations.

Finance-related Legal & Contractual Provisions

As described in Note 4, the Authority was in compliance with the reserve requirement of the USDA loan agreement.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the City for this fiscal year.

Excess of Expenditures Over Appropriations

As indicated in Note 1, the Authority prepares an Estimate of Needs budget. The expenditures for the year did not exceed appropriations by more than the revenues exceeded budgeted revenues.

NOTE 3 - DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

Custodial Credit Risk

At June 30, 2013, the City held deposits of approximately \$613,682 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit should be covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name. However, as of June 30, 2013, the City did not have collateral pledges to cover the balances over FDIC coverage.

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Investments of the City are limited by O.S., Title 62, Section 348.1 to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State of Oklahoma is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. Negotiable certificates of deposits, prime bankers acceptance prime commercial paper and repurchase agreements with certain limitations. Any investments mentioned in the previous paragraphs a. and b., where the collateral has been deposited with a trustee in an irrevocable trust or escrow account.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trust whose beneficiary is a county, municipality or school district.

For the year ended June 30, 2013 the City complies with the above noted investment restrictions.

NOTE 4 - RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) require the District to set aside into a Reserve Account the sum 10% of the monthly installments or \$306.30 each month until there is accumulated in that account the sum of the annual installment for each loan (\$27,492 for 92-01 and \$9,264 for 92-04, total of \$36,756), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2013, the account balance for the reserve account was \$20,136.05, which meets the required balance of \$11,026.80.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2013, was as follows:

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

City of Lehigh:

	Balance at July 1, 2012	Additions	Retirements	Balance at June 30, 2013
PRIMARY GOVERNMENT:				
<i>Governmental Activities:</i>				
Other capital assets:				
Capital Assets	\$ 261,167	\$ -	\$ -	\$ 261,167
Total Other Capital Assets at Historical Cost	261,167	-	-	261,167
Less: Accum. Depreciation for:				
Capital Assets	-	-	-	-
Total Accumulated Depreciation	-	-	-	-
Governmental Activities Capital Assets, net	\$ 261,167	\$ -	\$ -	\$ 261,167

Lehigh Public Works Authority:

	Balance at July 1, 2012	Additions	Retirements	Balance at June 30, 2013
<i>Business-Type Activities:</i>				
Capital Assets not being Depreciated:				
Land and Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets not being Depreciated	-	-	-	-
Other capital assets:				
Sewer Improvements	217,911	-	-	217,911
Machinery & Equipment	653	-	-	653
Total Other Capital Assets at Historical Cost	218,564	-	-	218,564
Less: Accum. Depreciation for:				
Sewer Improvements	20,980	10,896	-	31,875
Machinery & Equipment	435	218	-	653
Total Accumulated Depreciation	21,415	11,113	-	32,528
Other Capital Assets, Net	197,149	(11,113)	-	186,035
Business-Type Activities Capital Assets, net	\$ 197,149	\$ (11,113)	\$ -	\$ 186,035

Lehigh Industrial Development Authority:

	Balance at July 1, 2012	Additions	Retirements	Balance at June 30, 2013
<i>Business-Type Activities:</i>				
Capital Assets not being Depreciated:				
Land and Construction in Progress	\$ -	\$ 38,400	\$ -	\$ 38,400
Total Capital Assets not being Depreciated	-	38,400	-	38,400
Other capital assets:				
Sewer Improvements	3,173,125	-	-	3,173,125
Total Other Capital Assets at Historical Cost	3,173,125	-	-	3,173,125
Less: Accum. Depreciation for:				
Sewer Improvements	211,542	105,771	-	317,312
Total Accumulated Depreciation	211,542	105,771	-	317,312
Other Capital Assets, Net	2,961,583	(105,771)	-	2,855,812
Business-Type Activities Capital Assets, net	\$ 2,961,583	\$ (67,371)	\$ -	\$ 2,894,212

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 - LONG-TERM DEBT

ENTERPRISE FUND DEBT

NOTE PAYABLE:

<u>Terms and Collateral</u>	<u>Outstanding Debt June 30, 2013</u>
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Promissory Note to USDA Rural Development (#01) in the amount of \$517,000.00 with an interest rate of 4.25%, monthly payments of \$2,291 and maturing in 2048. The note was used to finance a sewer project.	\$498,326.02
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Promissory Note to USDA Rural Development (#04) in the amount of \$171,000.00 with an interest rate of 4.375%, monthly payments of \$772 and maturing in 2048. The note was used to finance a sewer project.	<u>\$164,956.45</u>
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Total Notes Payable Outstanding	<u>\$663,282.47</u>
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The following is a summary of long-term debt additions and deductions for the year ended June 30, 2013:

	Balance 7/1/2012	Additions	Deductions	Balance 6/30/2013
N/P - RD #1	\$ 504,495	\$ -	\$ (6,169)	\$ 498,326
N/P - RD #4	166,956	-	(1,999)	164,956
	<u>\$ 671,451</u>	<u>\$ -</u>	<u>\$ (8,168)</u>	<u>\$ 663,282</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2013, are as follows:

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

RD #92-01

Year Ended June 30,	Principal	Interest	Annual Payment
2014	\$ 6,429	\$ 21,063	\$ 27,492
2015	6,707	20,785	27,492
2016	6,998	20,494	27,492
2017	7,301	20,191	27,492
2018	7,618	19,874	27,492
2019-2023	43,337	94,123	137,460
2024-2028	53,578	83,882	137,460
2029-2033	66,238	71,222	137,460
2034-2038	81,891	55,570	137,460
2039-2043	101,241	36,219	137,460
2044-2048	116,987	12,532	129,519
Total	<u>\$ 498,326</u>	<u>\$ 455,953</u>	<u>\$ 954,279</u>

RD #92-04

Year Ended June 30,	Principal	Interest	Annual Payment
2014	\$ 2,086	\$ 7,178	\$ 9,264
2015	2,179	7,085	9,264
2016	2,276	6,988	9,264
2017	2,378	6,886	9,264
2018	2,484	6,780	9,264
2019-2023	14,184	32,136	46,320
2024-2028	17,645	28,675	46,320
2029-2033	21,951	24,369	46,320
2034-2038	27,308	19,012	46,320
2039-2043	33,972	12,348	46,320
2044-2048	38,495	4,153	42,648
Total	<u>\$ 164,956</u>	<u>\$ 155,612</u>	<u>\$ 320,568</u>

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The City's restricted amounts are described in Note 4 above.

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Governmental Fund Balances

City of Lehigh, Oklahoma
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2013

	General Fund	Volunteer Fire Fund	Other Governmental Funds	Total Governmental Funds
<u>FUND BALANCES:</u>				
Restricted for:				
Road Maintenance	\$ -	\$ -	\$ 1,320	\$ 1,320
Assigned to:				
Fire Department	-	9,574	-	9,574
Cemetery Fund	-	-	9,059	9,059
Unassigned	60,205	-	-	60,205
Total	<u>\$ 60,205</u>	<u>\$ 9,574</u>	<u>\$ 10,379</u>	<u>\$ 80,158</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

The City participates in certain federal and state grant programs as available, currently the City is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the City that the amount, if any, would not be significant.

LITIGATION

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

NOTE 9 - ENTERPRISE FUNDS

During the fiscal year ending June 30, 2007, the Lehigh Industrial Development Authority and the Lehigh Public Works Authority opened bank accounts separate from the City's General Fund. Until 2007, all PWA financial activity was accounted for in the general fund and the

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

IDA did not have any activity. Since all activity was previously commingled in the General Fund, prior year adjustments to Net Assets were required to show the Capital Assets and Debt that actually belonged to the Enterprise Funds.

NOTE 10 - LEASE INCOME

Oil & Gas Lease

The City entered into an Oil and Gas Lease dated December 7, 2006 through Lowry Land Co., Inc. The lease is for Sec. 16-1S-10E which is 40 acres in Coal County, Oklahoma. The lease calls for \$2,200 per acre for a term of 2 years, with a royalty of 3/16.

The City entered into a second Oil and Gas Lease dated December 7, 2006 through Lowry Land Co., Inc. The lease is for Sec. 21-1S-10E which is 160 acres in Coal County, Oklahoma. The lease calls for \$2,200 per acre for a term of 2 years, with a royalty of 3/16.

The City entered into an Oil and Gas Lease dated April 26, 2007 through Texhoma Land Consultants, Inc. with Antero Resources. The lease is for Sec. 11-1S-10E which is 21.2 acres in Coal County, Oklahoma. The lease calls for \$2,268 per acre.

Grass Lease

The City accepted the following grass leases:

Keith Horn \$805.00 on the 80 acres
Danny West \$759.00 on the 40 acres
Bob Thomas \$1,665.00 on the 160 acres

NOTE 11 - ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Accumulated unpaid vacation and sick leave benefits have not been shown as a liability in the financial statements. The City's position is that any accrued benefits are not significant and would not materially affect the financial statements.

NOTE 12 - PENSION PLAN

The City does not maintain or contribute to any type of pension plan.

NOTE 13 - RISK MANAGEMENT

The City's risk management of loss consists of commercial insurance for property and liability losses, an employee's bond for employee

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

dishonesty, and worker's compensation through the State Insurance Fund. There have been no significant reductions in insurance coverage during the year ended June 30, 2013.

PARTICIPATION IN PUBLIC ENTITY RISK POOL

The City of Lehigh participated in the Oklahoma Municipal Assurance Group (OMAG) for insurance purposes. The Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan) became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing and legal defense for any and all claims submitted to it during the Plan year. A plan year normally begins at 12:01 a.m. July 1, in any year and ends at Midnight June 30, of the following calendar year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

A municipality may apply and enter into agreement with the Plan to participate in the coverage's and services that the Plan offers as outlined above. Upon acceptance into the Plan, a participant has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, a participant in the Plan is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have a right to the return of any Loss Funds set aside for claims which have not been paid out as benefits.

These funds represent both current and past plan year participation with the Loss Fund balances in respect to worker's compensation retention. The State Insurance Fund provides coverage in excess of these respective retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of the State Insurance Fund to honor its obligation could result in losses to the Plan. However, OMAG's evaluation of the financial condition of the State Insurance Fund indicates that the State Insurance Fund is presently financially sound and will be able to meet its contractual obligations.

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 14 - INTERFUND TRANSACTIONS

Interfund operating transfers for the year ended June 30, 2013, were as follows:

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
Fire Department Fund	\$ -	\$ 7,218.53
Street & Alley Fund	-	-
Cemetery Fund	-	7,218.53
Lehigh Industrial Development Authority	-	-
Lehigh Public Works Authority	-	17,000.00
Total General Fund	<u>\$ -</u>	<u>\$ 31,437.06</u>
SPECIAL REVENUE FUNDS:		
Fire Department Fund:		
General Fund	\$ 7,218.53	\$ -
Cemetery Fund	-	2,242.17
Lehigh Public Works Authority	-	6,077.06
Street & Alley Fund:		
General Fund	-	-
Cemetery Fund:		
General Fund	7,218.53	-
Fire Department Fund	2,242.17	-
Total Special Revenue Funds	<u>\$ 16,679.23</u>	<u>\$ 8,319.23</u>
ENTERPRISE FUNDS		
Lehigh Public Works Authority:		
General Fund	\$ 17,000.00	\$ -
Fire Department Fund	6,077.06	-
Lehigh Industrial Development Auth.	-	55,369.11
Lehigh Industrial Development Authority:		
General Fund	-	-
Lehigh Public Works Authority	55,369.11	-
Total Enterprise Funds	<u>\$ 78,446.17</u>	<u>\$ 55,369.11</u>
	<u>\$ 95,125.40</u>	<u>\$ 95,125.40</u>

NOTE 15 - USDA RURAL DEVELOPMENT GRANT

The Lehigh Industrial Development Authority received a Rural Business Enterprise Grant from USDA Rural Development in the amount of \$499,000.00 to be used for construction of an Industrial Building. Engineering Fees in the amount of \$38,400.00 were incurred during the year; however, the project has been on hold because the Authority has been unable to secure a project bid within the budget. The remaining

CITY OF LEHIGH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

balance of \$460,600.00 is currently in a project bank account held by the Authority.

NOTE 16 - SUBSEQUENT EVENTS

The City did not have any subsequent events through October 23, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2013.

EXHIBIT I

CITY OF LEHIGH, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 81,014	\$ 81,014	\$ 81,014	\$ 0
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	6,511	6,511	16,370	9,859
Use Tax	1,055	1,055	1,055	-
Cigar Tax	105	105	202	97
Franchise Tax	4,040	4,040	3,849	(192)
Intergovernmental:				
Alcoholic Beverage Tax	4,992	4,992	6,206	1,215
Grant Income	-	-	-	-
Lease Income/Rent	3,658	3,658	1,726	(1,932)
Oil & Gas Lease Income	15,149	15,149	20,981	5,832
Water Revenue	-	-	-	-
Licenses & Permits	-	-	-	-
Miscellaneous Income	719	719	903	184
Interest Income	245	245	377	133
Other Financing Sources:				
Operating Transfers In	-	-	-	-
Amounts available for appropriation	117,487	117,487	132,684	15,197
<u>Charges to Appropriations (Outflows):</u>				
Personal Services	30,000	30,000	23,896	6,104
Maintenance & Operations	30,000	30,000	17,146	12,854
Debt Service	-	-	-	-
Capital Outlay	47,487	47,487	-	47,487
Transfers	10,000	10,000	31,437	(21,437)
Total Charges to Appropriations	117,487	117,487	72,479	45,008
Adjustments to Fund Balance	-	-	-	-
Ending Budgetary Fund Balance	-	-	60,205	60,205

Unaudited

CITY OF LEHIGH, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2013

The City's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The City's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department. The expenditure categories required by the applicable State Statutes are:

1. Personal Services;
2. Maintenance and Operations; and
3. Capital Outlay

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Lehigh, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lehigh, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the City of Lehigh, Oklahoma's basic financial statements, and have issued our report thereon dated October 23, 2013, which was qualified for the improper capital asset recordkeeping and lack of segregation of its business-type activities.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lehigh's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lehigh's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Lehigh's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

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deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 13-01 and 13-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lehigh's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are included in the Schedule of Findings as Items 13-03 and 13-04. The results of our tests disclosed no instances of other matters that are required to be reported under Government Auditing Standards.

City of Lehigh's Response to Findings

City of Lehigh's response to the findings identified in our audit is described in the accompanying Schedule of Findings. City of Lehigh's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

October 23, 2013

CITY OF LEHIGH, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2013

INTERNAL CONTROL FINDINGS:

Item 13-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the City's major areas of internal control, that would be prevalent in a larger City, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the City.

Item 13-02: Meter Deposits

Criteria: It is the responsibility of the City to properly report and account for the financial information.

Condition: The Meter Deposit Control Account has not been accurately posted with all transactions during past years.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the account at yearend. A Meter Deposit Ledger should be maintained so that an accurate liability amount can be reported.

Response: The City has developed a meter deposit ledger in its WaterWorks program and also keeps a handwritten ledger of current year activity. However, the balance in the program does not reconcile to the balance in the financial statements and the handwritten ledger only includes current year activity.

CITY OF LEHIGH, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2013

COMPLIANCE FINDINGS:

Item 13-03: Water and Sewer Recordkeeping

Criteria: The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to maintain income and expense records for water and sewer systems separately.

Condition: The Authority maintains separate billing records for water and sewer income. However, the Authority does not maintain separate income and expense accounts for the water and sewer systems.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement as the USDA will no longer be accepting audits that do not have Water and/or Sewer Records broken out separately.

Response: The Authority was not aware of the requirement.

Item 13-04: Custodial Credit Risk

Criteria: In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State or political subdivision debt obligations, surety bonds, or certain letters of credit.

Condition: As of June 30, 2013, The IDA's bank balances with FirstBank totaled \$481,124. FDIC insurance covers \$250,000 and the Authority has no collateral pledges to cover the remaining balance.

Cause/Effect: This leaves a balance of \$231,124 which is uninsured and uncollateralized.

Recommendation: Asset pledges with the bank should be established to appropriately cover the Authority's bank balances.

Response: The City is aware of the problem and it will be corrected in the next fiscal year. The City had collateral pledges with its previous bank, however, accounts were opened with a new bank during the current year.

CITY OF LEHIGH, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	<u>SPECIAL REVENUE FUNDS</u>		Total Nonmajor Governmental Funds
	<u>Street & Alley Fund</u>	<u>Cemetery Fund</u>	
ASSETS			
Cash and cash equivalents	\$ 1,320	\$ 9,059	\$ 10,378
Accounts Receivable	-	-	-
TOTAL ASSETS	<u>\$ 1,320</u>	<u>\$ 9,059</u>	<u>\$ 10,378</u>
LIABILITIES & FUND EQUITY			
LIABILITIES:			
Accounts Payable	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:			
Nonspendable	-	-	-
Restricted	1,320	-	1,320
Committed	-	-	-
Assigned	-	9,059	9,059
Unassigned	-	-	-
TOTAL FUND BALANCES	<u>1,320</u>	<u>9,059</u>	<u>10,378</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,320</u>	<u>\$ 9,059</u>	<u>\$ 10,378</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>SPECIAL REVENUE FUNDS</u>		Total Nonmajor Governmental Funds
	<u>Street & Alley Fund</u>	<u>Cemetery Fund</u>	
<u>REVENUES:</u>			
Taxes:			
Sales Tax	\$ -	\$ -	\$ -
Franchise Tax	-	-	-
Intergovernmental:			
Alcoholic Beverage Tax	-	-	-
Gasoline Excise Tax	657	-	657
Motor Vehicle Tax	2,194	-	2,194
Grants	-	-	-
Donations	-	-	-
Fund Raisers	-	-	-
Reimbursements	-	-	-
Miscellaneous	2,834	-	2,834
Interest Income	-	18	18
TOTAL REVENUES	5,685	18	5,704
<u>EXPENDITURES:</u>			
Current:			
Personal Services	-	-	-
Maintenance & Operations	12,922	862	13,784
Capital Outlay	-	5,000	5,000
Debt Service - Principal & Interest	-	-	-
TOTAL EXPENDITURES	12,922	5,862	18,784
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	(7,236)	(5,844)	(13,080)
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating Transfers In	-	9,461	9,461
Operating Transfers Out	-	-	-
Capital Debt Proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	9,461	9,461
NET CHANGES IN FUND BALANCES	(7,236)	3,617	(3,619)
FUND BALANCE - BEGINNING OF YEAR	8,556	5,442	13,998
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-
FUND BALANCE - END OF YEAR	\$ 1,320	\$ 9,059	\$ 10,378

See Accountant's Audit Report & Notes Which Accompany These Financial Statements